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SUBJECT: NICARAGUA: ORTEGA INCITES MICROFINANCE PROTESTS

¶1. (SBU) Summary: President Ortega encouraged supporters at political rallies held in northern Nicaragua to protest against microfinance providers and demand renegotiation of outstanding loans. Local groups have responded to Ortega's call for action and barricaded the offices of several banks and other institutions. These microfinance providers remain closed. Some opposition politicians concede that Ortega's attack on "usurious lenders" resonates well politically. Defenders of microfinance note that they are the only source of financing for many small farmers, and their clients have excellent repayment rates. They point out that it is Ortega's rhetoric that drives up country risk and increases the cost of financing for the poor. End summary.

¶2. (U) During a political rally in the northern city of Jalapa on July 12, President Ortega encouraged clients of microfinance providers to "protest against usurious lending practices" and "demand renegotiation of their loans." He blamed microfinance providers for taking advantage of the poor and suggested that the Rural Savings and Loan Cooperative (CARUNA), founded by the FSLN in 1993, would provide loans to the poor of Jalapa at interest rates no higher than 8%. In a July 19 speech marking the 29th anniversary of the Sandinista Revolution, Ortega confirmed that CARUNA, rumored to have been receiving Venezuelan ALBA funding for several months already, would receive \$30 million from the financing scheme.

¶3. (U) Citing Ortega's call to action, a former FSLN mayor of Jalapa, who is in debt with microfinance providers, has led a protest against Banco ProCredit and FUNDESER, the city's only financial institutions, that has kept them shuttered and unable to operate since July 14. On July 16, protestors prevented microfinance providers in nearby Ocotal from operating by barricading their doors. Later that day in Esteli, Ortega added fuel to the fire by identifying Banco ProCredit, FINDESA, ASODENIC, and FODEM for their usurious lending practices. and branding them as "banking terrorists." Ortega blamed "neoliberalism," imposed by the "imperialist yankees," for having eliminated "the people's banks" that he created in the 1980s and replaced them with banks that encourage consumption only. Since then, protests in other cities in northern Nicaraguan have led to the closure of additional microfinance providers. There are renewed reports of violence in Ocotal on July 22.

¶4. (U) Alfredo Alaniz, President of the Nicaraguan Association of Microfinance Institutions (ASOMIF), has criticized President Ortega for inciting violence against microfinance institutions who are the only source of credit for many poor farmers. ASOMIF's 19 members manage a total loan portfolio of \$240 million, while several commercial banks, including Banco ProCredit and FINDESA, manage microfinance loan portfolios of another \$250 million. Alaniz reported that in many cities throughout Northern Nicaragua, microfinance institutions and banks remain shuttered, unable to provide service to clients while under threat of violent protest.

¶5. (SBU) Critics of microfinance complain that interest rates are too high, sometimes reaching 35% on an annual basis. Opposition

politicians privately concede that Ortega's attack on microfinance institutions, while shortsighted from an economic perspective, resonates well politically. Defenders of microfinance explain that their administrative costs are higher. They also claim to provide hands-on financial advice and education to clients and that their clients have excellent repayment rates. ASOMIF President Alaniz adds that Ortega's rhetoric since he took office has resulted in microfinance institutions' cost of funds increasing by nearly 25%.

¶6. (SBU) Comment: Whether these lenders' interest rates in fact exceed a legitimate premium for the financing, default rate, and administrative costs associated with microfinance is a legitimate subject for debate. But, with the economy slowing and inflation coming in at 11% for the first half of 2008, attacks on "usurious" lenders are part of Ortega's strategy to divert attention from his lackluster performance. End comment.

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